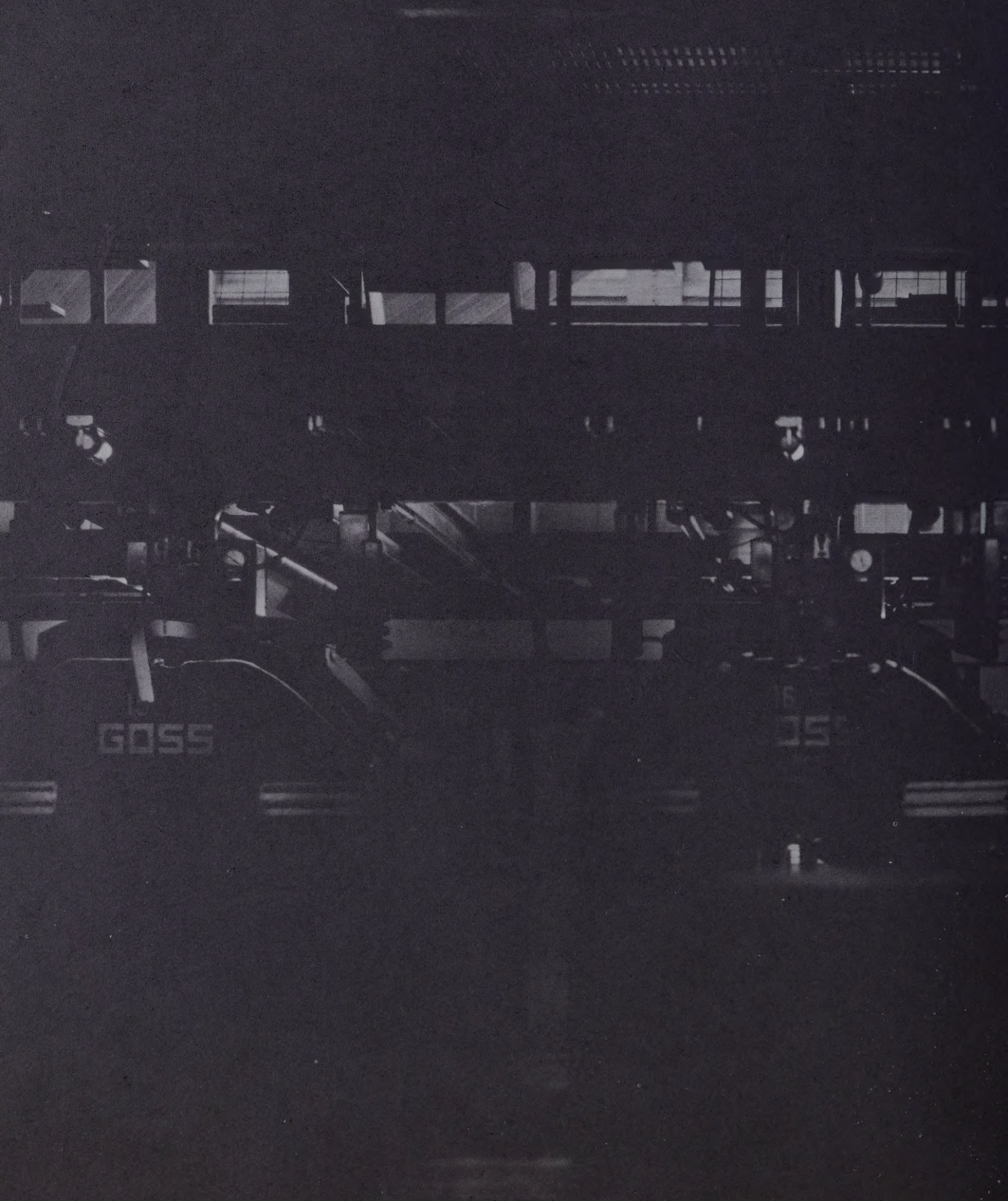


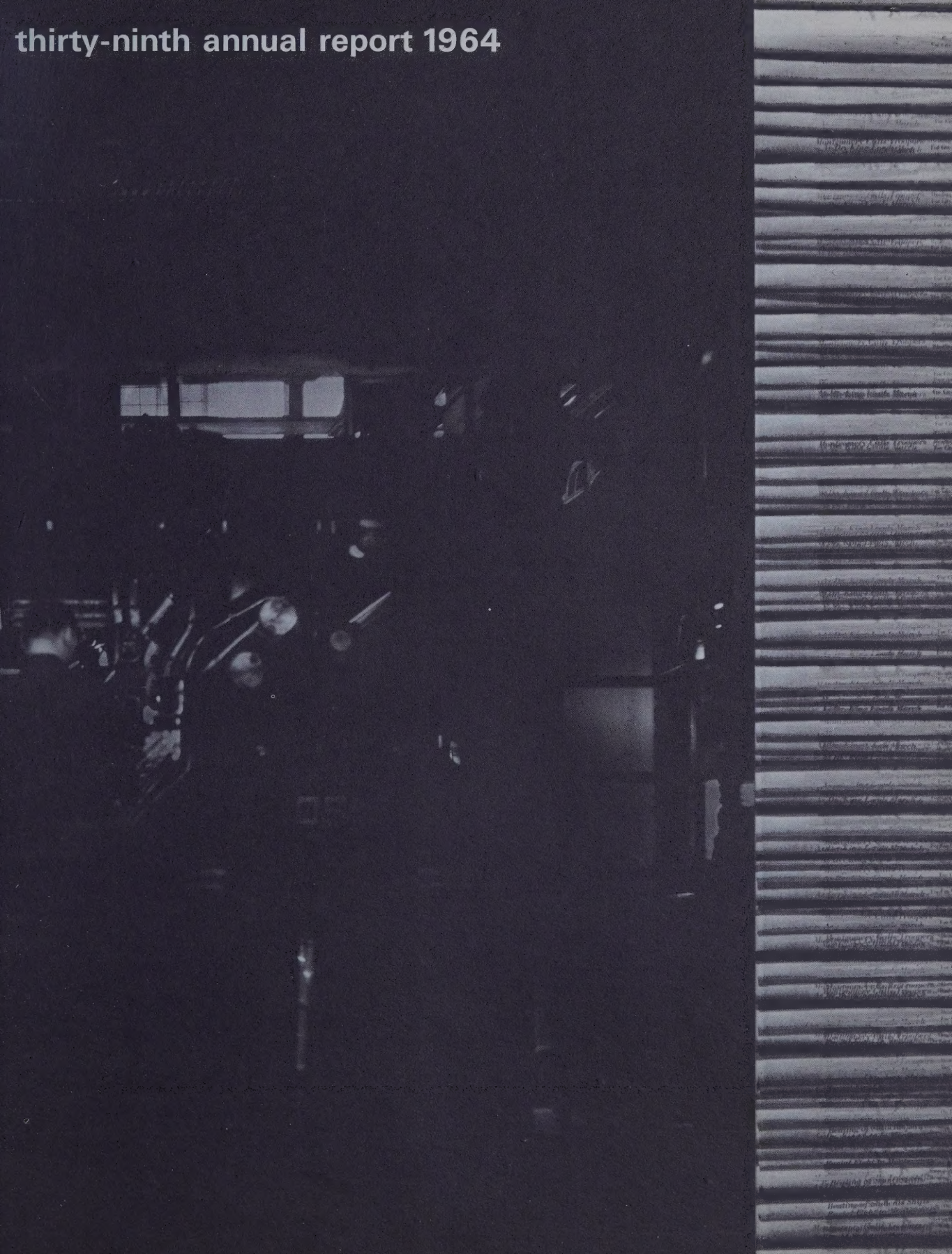
anglo-canadian pulp and paper mills, limited
annual report 1964

AR54



anglo-canadian pulp and paper mills, limited
and subsidiary companies





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registrar and transfer agent

For Common and Preferred Shares
MONTREAL TRUST COMPANY

Quebec, Montreal, Toronto, Winnipeg, Vancouver
and Halifax

auditors

LEVER, HONEYMAN, LEETHAM & CO., Montreal

Ce rapport annuel est publié en français et en anglais. Si vous en préférez un exemplaire français, veuillez en faire la demande au Secrétaire
ANGLO-CANADIAN PULP AND PAPER MILLS, LIMITED
C.P. 1487, QUÉBEC, P.Q.

anglo-canadian pulp and paper mills, limited

and its principal subsidiary
and associated companies

annual report 1964

	plant location	products
anglo-canadian pulp and paper mills, limited	Quebec, P.Q.	Newsprint Unbleached sulphite pulp Paperboard
dryden paper company, limited	Dryden, Ont.	Bleached & unbleached kraft pulp Bleached & unbleached kraft papers & board Fine papers
acme paper products company limited acme paper products inc. inter provincial bag limited molson bag & paper company limited superior gummed & waxed paper limited	Montreal, P.Q. and Toronto, Ont.	Linerboard & corrugated box board Corrugated paperboard containers Paper & polyethelene bags Distributors of a broad range of paper goods and allied products
woods-dryden paper bags ltd.	Winnipeg, Man. Calgary, Alta.	Shopping, notion and millinery bags, grocery and carry-out sacks
dryden chemicals limited lignosol chemicals limited	Dryden, Ont. Quebec, P.Q.	Bleaching chemicals Modified lignosulphonates
anglo-southern paper corporation	function Holds property near Texarkana, Texas, U.S.A. suitable for construction of a pulp and paper mill. Engaged in exploration for mineral deposits.	
the bersimis mining company (No Personal Liability)	Owns residential property at Forestville, P.Q. for rental to Anglo-Canadian employees.	
forestville realties limited	Operates four vessels transporting pulpwood and other general cargo.	
st. charles transportation company limited	Supplier of secondary material used in the manufacture of corrugating material and linerboard.	
textile & paper waste sales limited		

anglo-canadian pulp and paper mills, limited

head office, quebec, p.q., canada

directors and officers

as at December 31st, 1964

directors

T. E. G. BAKER
M. J. FOLEY
E. L. GOODALL
HAZEN HANSARD, Q.C.
W. H. HOWARD, C.B.E., Q.C.
JAMES O'HALLORAN
H. D. RUTHMAN
S. T. F. RYDER
RENAULT ST-LAURENT, Q.C.
L. G. SHARP
W. E. SOLES
P. H. SYKES

officers

Chairman of the Board: W. H. HOWARD, C.B.E., Q.C.
President and General Manager: W. E. SOLES
Vice-President: M. J. FOLEY
Vice-President: H. D. RUTHMAN
Vice-President — Finance, and Secretary: R. M. THOMAS
Treasurer: DAVID YOUNG, C.A.
Comptroller: W. G. D. STANLEY
Assistant Secretary: W. P. CREAGH

report of the directors

to the shareholders of the company

Your Directors submit the following report for the year ended December 31st, 1964, together with the consolidated financial statements of your Company and the Auditors' Report.

earnings and dividends

Consolidated net earnings were \$6,862,470 compared with \$5,312,810 in 1963, an increase of 29%. Of this amount \$428,950 is accounted for by earnings of the Acme-Molson group of companies since acquisition. After providing for dividends on preferred shares, the earnings per common share amounted to \$1.26. The comparable figure for 1963 was \$0.97.

□ Apart from earnings of the Acme-Molson group, there were appreciable additions to revenue from increased pulp prices, although these benefits were largely offset by a net increase in costs. The improvement in profit can thus be attributed to increased sales of newsprint, sulphite pulp and kraft papers.

□ The effect of a slight decrease in the exchange premium rate on the U.S. dollar, in which currency a large proportion of the Company's sales are made, was more than offset by increased sales in U.S. funds, resulting in a small net increase in benefits from this source.

□ The operations of Dryden Paper Company, Limited, which results are included in the consolidated accounts, showed a net profit of \$1,917,039 compared with \$1,251,469 for 1963, an increase of 53%. This reflects benefits from improved pulp prices and increased kraft paper sales, a shift to more profitable grades related principally to kraft pulps and improved loading methods for pulp.

□ Dividends paid in 1964 on the common stock of the Company again were at the rate of \$2.00 a share on the old stock and at the rate of \$2.80 a share on the preferred stock which was redeemed on November

23rd, 1964. Dividends declared on the common stock, the preferred shares which have been redeemed and on the new 4½% Convertible Preferred Shares totalled \$2,988,506 and represented 44% of consolidated net earnings.

acquisitions

ACME-MOLSON GROUP

On August 31st, 1964, your Company acquired all the outstanding shares of Acme Paper Products Company Limited, Molson Bag & Paper Company Limited, Acme Paper Products Incorporated, Sterling Paper Products (Ontario) Limited, Seabrook-Harris Paper Products Co. Limited, Inter Provincial Bag Limited, Superior Gummed & Waxed Paper Limited and Molson Bag & Paper Limited.

□ This group of companies is engaged in the manufacture and distribution of corrugated paperboard containers, a wide range of paper bags including grocery bags, shopping and specialty bags, single face corrugated paperboard rolls, gummed tape, waxed paper, folding paper boxes and polyethylene bags.

plant production

	1964	TONS	1963
QUEBEC PLANT			
Newsprint.....	295,842		293,281
Unbleached Sulphite Pulp....	62,660		50,875
Paperboard.....	21,554		22,116
	<u>380,056</u>		<u>366,272</u>
DRYDEN PLANT			
Bleached Kraft Pulp.....	93,815		90,763
Unbleached Kraft Pulp.....	24,860		25,252
Kraft Paper and Board.....	56,284		52,591
	<u>174,959</u>		<u>168,606</u>
TOTALS.....	555,015		534,878

anglo-canadian pulp and paper mills, limited

and subsidiary companies

This group also distributes a wide range of paper and allied products. The corrugated container manufacturing operations were commenced in 1936 while the paper bag manufacturing operations started in 1932.

□ The manufacturing operations are carried on in 5 plants, two of which are owned and three of which are leased. These plants are located in Toronto and Montreal. The corrugated paperboard containers manufactured by the group are used by many widely diversified industries for the packaging and shipping of products. The paper bags manufactured cover a wide range of types and sizes and are used principally by supermarkets, grocery stores, department stores and other retail merchants. Polyethylene bags are made for industrial and commercial users. The products of the group are sold almost entirely in Ontario and Quebec. The Company also acquired 50% of the outstanding capital stock of Textile & Paper Waste Sales Limited, a supplier of secondary material used in the manufacture of corrugating material and linerboard. The aggregate purchase price of these acquisitions amounted to \$18,345,000.

□ The addition of this established, well managed and profitable organization with an attractive history of earnings growth engaged in a line of business generally compatible with your Company's activities contributes further strength and depth to overall operations.

LIGNOSOL CHEMICALS LIMITED

Lignosol Chemicals Limited operates a chemical plant adjacent to the Company's Quebec plant, producing modified lignosulphonates utilizing spent sulphite liquor from the Company's Quebec operation. The end products have a wide range of industrial and engineering applications. Since Lignosol's incorporation in 1950, your Company has held 50% of its common stock. Growth in sales volume following a ten year period of establishing markets have accelerated substantially in the past three years. This

growth has been accompanied by a trend towards more sophisticated products enjoying somewhat better profit margins and a general strengthening in prices. At year end, your Company exercised an option to purchase the remaining common stock whereupon Lignosol Chemicals Limited became a wholly-owned subsidiary.

production and marketing

Production at the Quebec and Dryden plants totalled 555,015 tons. The comparable 1963 figure was 534,878 tons.

□ Consolidated net sales of all products amounted to \$78,195,213 in 1964. This compares with 1963 sales of \$67,653,561. The Acme-Molson group's sales for the period since September 1st, 1964, are included in the 1964 sales total. Excluding Acme-Molson's sales for this period for purposes of comparison, sales increased approximately 8% over 1963 levels. This marked increase reflects the result of stronger demand coupled with an intensive sales effort. The market situation enabled production to be shifted to some extent to higher profit grades.

NEWSPRINT

During 1964, the newsprint machines operated at full capacity as in 1963. There was a modest increase in sales which was satisfied out of inventories.

□ Late in 1964, a major West Coast producer reduced the price of newsprint to its U.S. and Canadian customers by \$10 a ton. Certain other producers followed suit as they served customers in essentially the same geographic locale. Your Company has not done so. Such a price reduction in our case, at this time, would be ill-advised and economically unwarranted. There has been a rise in demand for newsprint in world markets and existing mills approach near-capacity production levels. For almost eight years the price of newsprint has remained stable while producers have absorbed rapidly rising costs of wages and materials.

MARKET PULPS

1964 was a record year for market pulps. Most striking was the increase of 23% in baled pulp production by the Quebec Division, representing operations at full capacity. The Dryden Division, already operating near peak production levels, registered an improvement of 2%.

□ The profit on sales of pulps increased due to price improvements, a shift to more profitable grades and improved loading methods. Pulp price increases in North America ranged from 4% to 7% in a generally more buoyant market.

PAPERBOARD AND KRAFT PAPERS

A moderate decrease in production of paperboard at the Quebec plant is attributable to meeting a general demand for higher quality. This condition was common to the industry as a whole and our share of the market was maintained.

□ The substantial increase in production of kraft papers and boards at the Dryden plant reflected an exceptionally strong market in these products. Satisfactory progress was made during the year in the development of fine paper sales.

□ Your Company continues to pursue an aggressive policy of research aimed at developing for its customers primary materials with characteristics permitting high operating efficiencies in converting equipment and at prices competitive with other packaging media.

CONVERTING AND CONTAINERBOARD

Sales of the Acme-Molson group for the last four months of the year are included in the consolidated sales of your Company. For the full year sales of this group increased by about 9% over the comparable figure for 1963. This substantial sales increase reflects the general growth in the corrugated container and bag markets in the Toronto and Montreal areas. An additional factor was the bringing into operation of the corrugating plant in Montreal.



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□ The operations of Woods-Dryden Paper Bags Ltd. continued at a level slightly better than that achieved in 1963 but net profits remained approximately the same due to a 4% reduction in bag prices. Offsetting this to a degree was a shift to higher priced products and increased production including the first full year's operation of the new shopping bag machine.

CHEMICALS

Production at the Dryden Chemicals Limited plant was at maximum levels during the year. Production of chlorine, caustic soda, sodium chlorate and hydrochloric acid principally for use by Dryden Paper Company totalled 26,830 tons. The average operating rate for the year was 94% of rated capacity compared to 84% in 1963. The outlook for 1965 is for continuing improvement in operating ratios, with a programme to improve overall efficiency of the plant particularly in the production of sodium chlorate.

□ Lignosol Chemicals Limited had a record year in production, sales and profits. The evaporators operated at 95% of rated capacity producing 48,858 tons, a substantial increase over 1963. There were several minor price increases during the year but the principal benefit arose from increased sales of higher priced products. As Lignosol became a wholly-owned subsidiary only at year end, its sales are not consolidated with the Company's. The outlook for the coming year is most favourable.

recapitalization and new financing

By letters patent dated November 19th, 1964, the authorized capital of your Company was altered by subdividing each share without nominal or par value into four common shares without nominal or par value, creating an additional 4,000,000 of these common shares and 600,000 4½% Cumulative Redeemable Convertible Preferred Shares of the par value of \$25 each.

□ On November 23rd, 1964, all of the outstanding \$2.80 Preferred Shares were called for redemption and cancellation. At the same time, 600,000 4½% Cumulative Redeemable Convertible Preferred Shares of the par value of \$25 each were issued and sold at a price of \$26. Of the 4,942,916 common shares without nominal or par value which remained unissued as at December 31st, 1964, 1,200,000 are reserved to satisfy the conversion right attaching to the new 4½% Convertible Preferred Shares.

□ Under the Trust Agreement dated November 1st, 1957, between the Company and Montreal Trust Company, \$5,000,000 U.S. Funds 5% Sinking Fund Debentures, Series "B", maturing December 1st, 1984, were issued on December 15th, 1964 and sold at par.

consolidated financial position

At year end, working capital totalled \$34,771,380, an increase of \$7,139,185 over the comparable figure for the preceding year.

□ Inventories of pulpwood, finished products, materials and supplies totalled \$22,730,364, compared with \$20,223,882 for 1963.

□ Anglo-Canadian redeemed \$100,000 of its 6¼% Sinking Fund Debentures while Dryden Paper Company, Limited retired \$700,000 principal amount of its 4¾% Serial and Sinking Fund Debentures. Dryden Chemicals Limited also retired \$350,000 of its 6% Serial Debentures. In total, long term liabilities were increased by \$10,788,968 principally attributable to the notes payable with respect to the acquisition of the Acme-Molson group of companies and the new issue of Series "B" Debentures.

□ The Statement of Consolidated Financial Position includes the assets and liabilities of Lignosol Chemicals Limited as at year end. However, as the effective date of the acquisition of Lignosol Chemicals Limited was December 31st, 1964, the operating results of that Company are not included in the Statement of Consolidated Income and Expenditure.

□ The equity of Common Shareholders advanced from \$9.77 per share in 1963 to \$10.48 in 1964.

plant modernization and expansion

Capital expenditures during the year totalled \$5,970,319. This represents expenditures for plant, equipment and townsite and logging improvements. The comparable figure in 1963 was \$3,953,644.

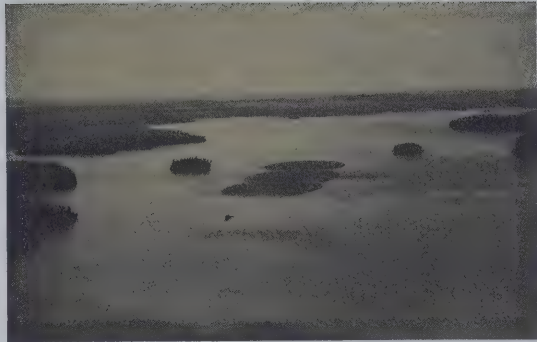
□ At the Quebec plant, capital expenditures totalled approximately \$1,650,000. A new oil storage tank, together with a supplementary oil pipeline, was constructed at a cost of \$380,000. This additional storage will assist in holding down the cost of our oil requirements.

□ Paper machine changes directed at product improvement were continued. Work commenced on the installation of centricleaners and a new breaker stack on No. 4 Paper Machine, the aggregate cost of which is estimated at \$420,000.

□ Materials handling and its inherent high labour costs continued to receive close study. During the course of the year, bulk sulphur facilities were converted to handling liquid sulphur. Projects of a like nature resulting in cost savings were the conversion of facilities from the use of powdered alum to a liquid form and rock limestone to powdered limestone.

□ A capital additions programme including the construction of an 800 ton a day recovery furnace and drying capacity modifications to the pulp machine was commenced at Dryden. This will result in additional production capacity of about 15,000 tons of bleached and unbleached kraft pulps and 3,000 tons of bleached and unbleached kraft papers and board annually. This programme, to be completed by the end of 1965, is expected to cost about \$5,300,000 of which slightly in excess of \$1,500,000 was spent in 1964.

□ A further \$1,800,000 was spent for general capital improvements in the Dryden operations of which approximately \$600,000 was for the purchase of mechanical logging equipment. In the plant, a new



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winder and head-box were installed on No. 2 Paper Machine at a cost of \$257,000. Improvements were carried out on No. 4 Paper Machine costing approximately \$250,000. A new 72" rewinder, and related equipment, was installed for \$110,000.

□ At the Dryden Chemicals plant, capital expenditures amounted to over \$50,000.

□ Since acquisition, capital expenditures of the Acme-Molson group of companies were approximately \$175,000. Total capital expenditures of the group for the full year aggregated slightly less than \$1,000,000 and included major additions and improvements to the Toronto and Montreal plants.

timber resources and forest management

Pulpwood provided from the Company's leased timber limits in Quebec and Ontario totalled over 590,000 cords. In addition, about 184,000 cords were purchased from farmers and other producers for the Quebec plant and over 95,000 cords were purchased for the Dryden plant.

□ Emphasis continued on implementation of methods and practices designed to reduce or at least maintain wood costs, which still remains the most important single factor in production expenses. In the Dryden operations, the terrain lends itself to a greater utilization of mechanized equipment as a result of which pulpwood production per man-day has doubled during the past five years.

□ An inquiry into the administration of the public lands of the Province has been announced by the Minister of Lands and Forests of the Province of Quebec. The hearings are scheduled for early 1965 and your Company, well aware of the many problems concerning the rational utilization of our forests, welcomes this objective study and proposes to take advantage of this opportunity to present its views.

research and development

During the year, Research and Development activities were intensified to meet the competitive situation in

many sectors of the pulp and paper markets and continued the examination of possible solutions to engineering and production problems with the end-view to reducing costs, improving quality and increasing production. As an illustration, at the Quebec plant, the installation of a pilot plant for the production of mechanical pulp by the use of disc refiners was completed and the equipment is now operating on trial runs. It is hoped that the system will shortly be operating at a rate of capacity sufficient to permit a decision with respect to a full scale installation.

industrial and community relations

Total wages and salaries together with Company contributions to pension, group insurance and medical and hospitalization plans and other employee benefits aggregated \$29,300,000.

□ During the year, employment attained a record peak of 6,478 persons, of whom 3,604 were regular employees in plants and offices while 2,874 were woods workers.

□ The labour agreements with the union locals representing employees in the plants and offices at Quebec and Dryden continued in force during 1964 but will come up for renegotiation in 1965. This situation also applied to the union locals representing the woods workers and other employees in the Forestville operations.

□ The labour agreement with the union local representing the woods workers in the Dryden operations expired on November 30th, 1964 and was renegotiated for a 22-month term ending September 30th, 1966. This new contract provides for wage increases payable in two stages over the term of the contract. Provision was also made for increased allowances to commuters for travelling to and from work as well as increased Company contributions towards the cost of employees' medical, surgical and hospital benefits.

□ Under the provisions of the new Quebec Labour

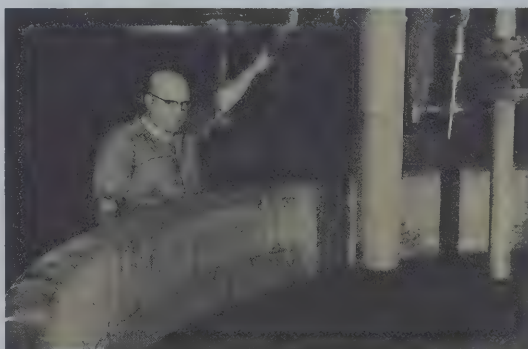
Code, pulpwood scalers in the Forestville and Quebec operations formed an association during the year and a labour agreement was entered into with that association.

□ The new corrugating plant of Acme Paper Products Company Limited in Montreal commenced operations in the late Fall. The International Brotherhood of Pulp, Sulphite and Paper Mill Workers obtained certification for the employees. The first contract was signed in November, and contained provisions common to the converting and container-board industry in the Montreal area.

continuous operations

In August 1964, the Government of Quebec set up a Public Inquiry Commission to examine the various aspects of continuous operation of the pulp and paper mills in the Province. The industry in major competing areas such as Scandinavia, the Southern United States and Pacific Coast of North America operates on a 7-day basis, obviously one of the major factors having a detrimental effect on the competitive position of Quebec mills. The mandate of the Commission has been extended to December 1st of this year.

□ Your Company submitted a Brief to the Commission which, while recognizing the desirability of preserving the Sabbath, pointed out that with 6-day operations, and with current maintenance programmes, there are more men in the plant, and substantially more manhours worked on Sunday than would be the case were the plant to operate continuously. The Submission set out that employees would not work longer hours than at present and stressed the benefits which would be obtained for the welfare of the Province as a whole through continuous operations. On a province-wide basis these would be in two distinct forms. First, an increase in revenues in the Province through full utilization of capacity of plants and machinery which already exist in Quebec. These increased revenues would be in the form of



anglo-canadian pulp and paper mills, limited

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additional wages and salaries, purchases of goods and services, improved returns to shareholders and increased tax collections at all levels of government. Second, the improvement in the rate of return on investment capital resulting from continuous, as compared with 6-day, operations would increase the possibility of economic expansion in the Province. Although the initial effect would be on the Pulp and Paper Industry, there would be a related stimulus to investment in other industries in Quebec.

directors and corporate management

On March 16th, 1965, your Board of Directors accepted, with regret, the resignation of Mr. L. G. Sharp as a Director of this Company.

□ At a meeting of your Board of Directors held on December 7th, 1964, Mr. R. M. Thomas was appointed Vice-President — Finance, and Secretary.

□ In accordance with your Company's policy, Mr. J. R. Latter, Director of Personnel, retired on October 1st, 1964, after 37 years of outstanding service to the Company.

□ It is with profound sorrow that we record the untimely passing of Mr. P. S. Quinn on December 23rd, 1964. At the time of his death, Mr. Quinn was Divisional Manager responsible for the operations of Dryden Paper Company, Limited. During his 32 years with the organization, Mr. Quinn made a significant contribution to its progress and growth.

outlook

In 1965, the major sectors of the Industry in which your Company has interests should continue to maintain the high operating ratios attained in the latter part of 1964. With respect to newsprint, in general, forecasts made a year ago proved to have been overly conservative. By year end, in place of the moderately soft market conditions which had been predicted, the North American newsprint industry found itself operating at almost full capacity. This had a greater impact on Canadian than U.S. mills,

because the latter, already operating closer to practical capacities, were not able to fill their proportionate share of the increased demand. The Canadian producer, at least for the present, enjoys a slightly increased share of the U.S. market.

□ We expect that newsprint demand will continue to be strong in 1965. Permission for continuous operation of mills in the Province of Quebec, if granted early enough to take advantage of this situation, could offer opportunities for capturing long term tonnage for Quebec mills. Failure to grant this permission will inevitably encourage further newsprint expansion in the Southern United States and the Pacific Coast.

□ Market pulp mills will experience strong demand for the next year, and growth possibilities are already discounted by existing mill projects. Marked differences apply, however, with respect to the major grades. In particular, special circumstances exist regarding bleached kraft pulp and in view of the many conflicting reports currently being circulated, the situation deserves comment. It is clear that the planned expansion of facilities in this grade is quite high in comparison with what the market will absorb but any insufficiency in demand in the short term is accepted as one of the costs of obtaining a position in the future market. This situation could have serious risks for the industry in the latter half of the sixties. However, the fact that these projected expansions are in general being undertaken by large and experienced producers, either alone or in partnership, leads one to assume that sound and constructive policies will be followed.

□ In common with the other sectors of the Industry the market for board and kraft papers strengthened by the end of 1964, and every indication is for continued growth at a moderate rate. Increased imports from the U.S. will likely provide an offsetting factor to any pressure for increased prices.

□ With regard to your Company's converting operations, the outlook is for a continued moderate

increase in sales. Profits, however, are unlikely to rise proportionately due to several factors common to the whole converting industry.

□ As we enter the fifth consecutive year of economic expansion, a period unprecedented in the post war years, we find the business outlook encouraging, but we are also aware of dangers and risks, both in the business in which your Company is engaged, and in the broader field of domestic and international economic activity. On the domestic scene, as the economy achieves full capacity, there is the risk of possible renewal of the wage-price spiral, clearly indicating the need for sound judgment on the part of both parties to wage negotiations and the stabilization of government expenditures at levels consistent with sound taxation policies. A grave risk also could lie in the current programme which has been forced on the United States to rectify its balance of payments deficit and the implications flowing therefrom for international liquidity, the volume of world trade and the potential for long run deflationary effects. As we see it now, we feel confident that through such international organizations as the International Monetary Fund, the Bank for International Settlements and the Organization for Economic Co-operation and Development, a solution will be found.

□ The Directors are grateful to all employees for their loyalty and individual accomplishments which contributed substantially to the good results of the past year. We welcome those new employees who joined our ranks in 1964 and we look forward to a year of achievement for our organization and its people.

On behalf of the Board

Lee J. Sole

President and General Manager

Quebec, P.Q.
March 16th, 1965



anglo-canadian pulp and paper mills, limited

and subsidiary companies

statement of consolidated financial position

		DECEMBER 31	
		1964	1963
current assets			
Cash.....	\$ 2,832,541	\$ 1,153,616	
Short term investments, at cost.....	11,540,873	5,852,072	
Marketable securities, at cost (market value \$1,944,101).....	1,897,668	997,350	
Accounts receivable.....	15,261,166	10,724,523	
Inventories, note 1.....	22,730,364	20,223,882	
Prepaid expenses applicable to future operations.....	732,655	472,787	
	<u>54,995,267</u>	<u>39,424,230</u>	
<i>less</i> current liabilities			
Bank loans (\$74,594 secured).....	659,294	1,210,000	
Accounts payable.....	8,359,062	6,323,162	
Dividends payable.....	761,000	730,544	
Taxes on income.....	3,309,445	2,578,329	
Notes and loan payable in 1965.....	8,317,000	—	
Debenture instalments due in 1965.....	514,500	950,000	
	<u>20,241,447</u>	<u>11,792,035</u>	
net current assets (working capital)	<u>34,771,380</u>	<u>27,632,195</u>	
land, buildings, machinery, equipment and timber limits,			
less depreciation and depletion, note 2.....	46,842,341	40,218,793	
other assets			
Investment in associated and other companies, at cost.....	1,186,372	1,599,013	
Preferred dividend maintenance fund.....	—	510,617	
Mortgages receivable.....	107,182	—	
Deferred expenditure.....	124,393	107,948	
Excess cost of shares of subsidiary companies over book values of their net assets, at dates of acquisition.....	14,879,860	3,628,798	
	<u>16,347,817</u>	<u>5,846,376</u>	
	<u>97,961,538</u>	<u>73,697,364</u>	
<i>less</i> long term liabilities			
Notes and loan payable, note 3.....	6,646,100	186,507	
Debentures, note 4.....	20,971,875	16,642,500	
	<u>27,617,975</u>	<u>16,829,007</u>	
income tax reductions applicable to future years, note 10	1,762,112	443,450	
minority interest in subsidiary companies, note 5	565,499	9,225	
	<u>29,945,586</u>	<u>17,281,682</u>	
shareholders' equity	<u>\$68,015,952</u>	<u>\$56,415,682</u>	
represented by			
Preferred shares, note 6.....	\$15,000,000	\$ 7,029,200	
Common shares, note 6.....	25,306,775	25,306,775	
Earnings retained, note 7.....	27,395,270	23,521,306	
Capital surplus, note 8.....	313,907	558,401	
	<u>53,015,952</u>	<u>49,386,482</u>	
	<u>\$68,015,952</u>	<u>\$56,415,682</u>	

on behalf of the Board: W. E. Soles, *Director*
H. D. Ruthman, *Director*

statement of consolidated income and expenditure

	YEAR ENDED DECEMBER 31	
	1964	1963
income		
Net sales including exchange and after deducting outward freight.....	\$78,195,213	\$67,653,561
Investment income.....	328,107	213,134
Sundry revenue.....	140,235	138,013
	<u>78,663,555</u>	<u>68,004,708</u>
expenditure		
Cost of products sold including administrative, selling and general expenses..	59,282,475	52,040,454
Depreciation and depletion, note 9.....	4,466,685	4,089,450
Interest on debentures.....	939,510	985,105
	<u>64,688,670</u>	<u>57,115,009</u>
net operating income	13,974,885	10,889,699
Taxes on income, note 10.....	7,112,415	5,576,889
net earnings for the year	<u>\$ 6,862,470</u>	<u>\$ 5,312,810</u>

statement of consolidated earnings retained

	YEAR ENDED DECEMBER 31	
	1964	1963
earnings retained, at beginning of year.....	\$23,521,306	\$21,130,831
<i>add:</i> Net earnings for the year.....	6,862,470	5,312,810
	<u>30,383,776</u>	<u>26,443,641</u>
<i>less:</i> Dividends on preferred shares.....	459,964	393,793
Dividends on common shares.....	2,528,542	2,528,542
	<u>2,988,506</u>	<u>2,922,335</u>
earnings retained, at end of year, note 7.....	<u>\$27,395,270</u>	<u>\$23,521,306</u>

anglo-canadian pulp and paper mills, limited

and subsidiary companies

notes to the financial statements

	YEAR ENDED DECEMBER 31	
	1964	1963
1. Inventories are valued at the lower of cost or market and consist of the following: —		
Finished products, products in process and mill supplies.....	\$ 7,363,298	\$ 6,927,657
Pulpwood and logging supplies — including expenditures on logging operations in progress....	15,367,066	13,296,225
	<u>\$ 22,730,364</u>	<u>\$20,223,882</u>
2. Land, buildings, machinery and equipment: —		
At cost.....	111,782,451	\$96,674,643
At depreciated replacement values as at Sept. 30, 1940 as appraised by the Canadian Appraisal Company Limited.....	114,862,172	3,079,738
	<u>114,862,172</u>	<u>99,754,381</u>
Less accumulated depreciation.....	71,244,131	63,180,730
Residual amount.....	<u>\$ 43,618,041</u>	<u>\$ 36,573,651</u>
Timber limits: —		
At cost.....	2,233,120	4,715,975
At valuation placed thereon in 1920.....	6,953,038	6,949,095
	<u>2,233,120</u>	<u>3,303,953</u>
Less accumulated depletion.....	2,233,120	3,645,142
Residual amount.....	<u>\$ 46,842,341</u>	<u>\$40,218,793</u>
3. Notes and loan payable		
Non-interest bearing notes payable 1966.....	\$ —	\$ —
Notes 6%, payable \$71,831 annually 1967 to 1971.....	171,945	186,507
Loan to housing subsidiary 3%, payable in annual instalments by 1974.....	<u>\$ 6,646,100</u>	<u>\$ 186,507</u>
4. Debentures		
Anglo-Canadian Pulp and Paper Mills, Limited: —		
6¼% sinking fund debentures, series "A", maturing in 1978 (for which the sinking fund requirements are \$100,000 annually 1965 to 1967, \$250,000 annually 1968 to 1972 and \$500,000 annually 1973 to 1977).....	\$ 4,550,000	\$ 4,650,000
5% sinking fund debentures, series "B", maturing in 1984 (for which the sinking fund requirements in United States currency are \$100,000 annually 1966 to 1970, \$200,000 annually 1971 to 1975, \$300,000 annually 1976 to 1980 and \$500,000 annually 1981 to 1983)	9,921,875	—
U.S. \$5,000,000, Canadian Funds proceeds: —.....	<u>9,921,875</u>	<u>4,650,000</u>
Dryden Paper Company, Limited: —		
4¼% serial debentures (matured in 1964).....	—	500,000
4¼% sinking fund debentures maturing in 1974 (for which the sinking fund requirements are \$700,000 annually 1965 to 1969 and \$850,000 annually 1970 to 1973).....	<u>9,900,000</u>	<u>9,942,500</u>
	<u>9,900,000</u>	<u>10,442,500</u>
Dryden Chemicals Limited: —		
6% serial debentures maturing \$400,000 in 1965, \$450,000 in 1966 and \$1,500,000 in 1971....	<u>2,350,000</u>	<u>2,700,000</u>
	<u>22,171,875</u>	<u>17,792,500</u>
Deduct: —		
Amount included in current liabilities.....	—	950,000
Dryden Paper Company, Limited 4¼% sinking fund debentures held in anticipation of sinking fund requirements in 1965.....	1,200,000	200,000
1965 instalments.....	<u>1,200,000</u>	<u>1,150,000</u>
	<u>\$ 20,971,875</u>	<u>\$16,642,500</u>
5. Minority interest in subsidiary companies		
Redeemable preferred shares.....	\$ 557,735	\$ —
Common shares (including applicable proportion of capital surplus and earnings retained)....	<u>557,735</u>	<u>9,225</u>
	<u>\$ 557,735</u>	<u>\$ 9,225</u>
6. Share capital		
Under Letters Patent dated November 19, 1964 the authorized capital of the Company was altered by: —		
(i) subdividing the existing 1,500,000 shares without nominal or par value into 6,000,000 common shares without nominal or par value		

	YEAR ENDED DECEMBER 31	
	1964	1963
(ii) creating an additional 4,000,000 common shares without nominal or par value, and		
(iii) creating 600,000 4½% cumulative redeemable convertible preferred shares of the par value of \$25 each.		
\$2.80 cumulative redeemable sinking fund preferred shares — authorized 160,000 shares of the par value of \$50 each, redeemable at \$51.50 each		
Issued and outstanding — 1963 — 140,584 shares		\$ 7,029,200
Purchased during year	140 shares	
	<u>140,444 shares</u>	
Called for redemption —		
November 23, 1964	140,444 shares	
Outstanding	<u>—</u>	
4½% cumulative redeemable convertible preferred shares — authorized 600,000 of the par value of \$25 each, voting, redeemable on 30 days notice at \$27.25 each plus accrued dividends		
Issued and outstanding	600,000 shares	
	<u>15,000,000</u>	<u>—</u>
	<u>\$ 15,000,000</u>	<u>\$ 7,029,200</u>
Common shares — authorized 10,000,000 shares without nominal or par value		
Issued—1963	1,264,271 shares	\$25,306,775
— Subdivided in		
1964 into	5,057,084 shares	\$ 25,306,775
Of the 4,942,916 common shares unissued at December 31, 1964, 1,200,000 are reserved to satisfy the conversion right attaching to the 4½% cumulative redeemable convertible preferred shares.		
7. Earnings retained include: —		
Amount equivalent to the \$2.80 preferred share capital purchased or called for redemption in 1964, constituting a special surplus not available for distribution under provisions of Section 142 of the Quebec Companies Act	\$ 7,029,200	\$ —
Amounts appropriated at December 31, 1963 in respect of \$2.80 preferred shares (no longer required):—		
For preferred share retirement fund		160,000
For preferred dividend maintenance fund		510,617
	<u>\$ 7,029,200</u>	<u>\$ 670,617</u>
8. Capital surplus		
At beginning of the year	\$ 558,401	\$ 560,755
Premium received on issue of 600,000 4½% cumulative redeemable convertible preferred shares	600,000	—
	<u>1,158,401</u>	<u>560,755</u>
Deduct:—		
Commission and expenses on issue of 4½% preferred shares	517,632	—
Premium and expenses on redemption of \$2.80 preferred shares and 6¼% debentures	267,357	2,354
Commission and expenses on issue of 5% debentures	59,505	—
	<u>844,494</u>	<u>2,354</u>
	<u>\$ 313,907</u>	<u>\$ 558,401</u>
9. Depreciation and depletion have been provided at the same rates as previously, as follows: —		
Depreciation	\$ 4,381,900	\$ 4,009,138
Depletion	84,785	80,312
	<u>\$ 4,466,685</u>	<u>\$ 4,089,450</u>
10. Taxes on income charged for 1964 include \$826,440 resulting from claiming, for tax purposes, depreciation in excess of that provided in the accounts. This amount, together with \$492,222 accumulated in the accounts of subsidiaries as at the date of acquisition in 1964, is included in "Income Tax Reductions Applicable to Future Years".		
11. The following are not included in liabilities in the statement of consolidated financial position:		
1. Contractual obligations for approximately \$1,580,000.		
2. Supplementary past service costs arising from revisions of employees' retirement plans approximating \$2,277,000.		

anglo-canadian pulp and paper mills, limited

and subsidiary companies

auditors' report

LEVER, HONEYMAN, LEETHAM & CO.
CHARTERED ACCOUNTANTS

To the Shareholders,
Anglo-Canadian Pulp and Paper Mills, Limited

We have examined the statement of consolidated financial position of Anglo-Canadian Pulp and Paper Mills, Limited and its subsidiary companies as at December 31, 1964 and the related statements of consolidated income and expenditure and of consolidated earnings retained for the year ended on that date, and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures of the Company and of certain of its subsidiary companies and such tests of their accounting records and other supporting evidence as we considered necessary in the circumstances. The accounts of the subsidiary companies not examined by us have been reported on by other auditors.

In our opinion, based upon our examination and the reports of the other auditors referred to above, the accompanying statement of consolidated financial position and related statements of consolidated income and expenditure and of consolidated earnings retained, with the notes thereto, have been properly drawn up to present fairly the consolidated financial position of the companies as at December 31, 1964 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, P.Q.
February 18, 1965



Chartered Accountants

statement of source and application of funds

	YEAR ENDED DECEMBER 31	
	1964	1963
source of funds:		
Net earnings.....	\$ 6,862,470	\$ 5,312,810
Charges not requiring an expenditure of funds:—		
Depreciation and depletion.....	4,466,685	4,089,450
Income tax reductions applicable to future years.....	826,440	443,450
Funds derived from operations.....	12,155,595	9,845,710
Disposal of capital assets.....	248,024	758,482
Issue of 5% debentures, Series "B", US \$5,000,000, — Canadian Funds proceeds.....	5,371,875	—
Issue of 4½% preferred shares, including premium.....	15,600,000	—
Working capital of subsidiary companies acquired during the year.....	3,513,463	—
Preferred dividend maintenance fund released upon redemption of \$2.80 preferred shares.....	510,617	(170,331)
	<u>37,399,574</u>	<u>10,433,861</u>
application of funds:		
Additions to properties, plant and equipment.....	5,970,319	3,953,644
Acquisition of shares in subsidiary and associated companies (\$18,445,000), less balance of purchase price payable in 1966 (\$6,115,000).....	12,330,000	(13,840)
Dividends on preferred shares.....	459,964	393,793
Dividends on common shares.....	2,528,542	2,528,542
Debentures instalments due within one year.....	1,200,000	1,150,000
Dryden Paper Company, Limited 4¾% sinking fund debentures purchased in 1962 and 1963 and held against instalments due in 1965.....	(157,500)	146,000
Redemption of \$2.80 preferred shares — par value.....	7,029,200	5,750
Commission, premium on \$2.80 preferred shares redeemed, and other expenses of new financing.....	844,494	—
Other items — net.....	55,370	(8,428)
	<u>30,260,389</u>	<u>8,155,461</u>
Working Capital Increase.....	<u>\$ 7,139,185</u>	<u>\$ 2,278,400</u>

anglo-canadian pulp and paper mills, limited

and subsidiary companies

a ten year comparison

	1955	1956	1957
TONS			
Total Production.....	388,233	411,434	424,439
THOUSANDS OF DOLLARS			
Net Sales.....	46,587	49,337	50,994
Depreciation and Depletion.....	3,664	4,627	4,603
Interest on Debentures.....	458	665	712
Taxes on Income.....	5,059	4,695	3,037
Net Earnings.....	5,436	5,102	3,116
Dividends.....	2,977	2,973	2,960
Capital Expenditures.....	5,523	13,459	6,778
THOUSANDS OF DOLLARS AT DECEMBER 31			
Working Capital.....	19,185	19,194	21,499
Property, Plant and Equipment.....	65,367	78,330	84,561
Accumulated Depreciation and Depletion.....	36,083	40,359	44,708
Long Term Debt.....	14,343	14,277	18,715
Shareholders' Equity.....	45,830	47,798	47,626
Shareholders' Equity per Common Share (on basis of 4 for 1 subdivision in 1964).....	\$7.48	\$7.90	\$7.90
Ratio of Current Assets to Current Liabilities at Year End.....	3.52	3.75	3.03
Dividends per \$2.80 Preferred Share (retired in 1964).....	\$2.80	\$2.80	\$2.80
Dividends per 4½% Preferred Share (issued in 1964).....			
Profit per Common Share (on basis of 4 for 1 subdivision in 1964).....	\$.99	\$.92	\$.53
Dividends per Common Share (on basis of 4 for 1 subdivision in 1964).....	\$.50	\$.50	\$.50

highlights

1958	1959	1960	1961	1962	1963	1964
467,637	494,067	516,400	501,355	501,419	534,878	555,015
55,808	60,397	64,638	62,679	63,681	67,654	78,195
4,589	4,680	4,224	4,046	4,161	4,089	4,467
976	948	917	890	1,035	985	940
4,153	4,027	4,654	4,857	4,886	5,577	7,112
3,837	3,784	4,868	4,719	4,552	5,313	6,862
2,950	2,943	2,932	2,929	2,926	2,922	2,989
5,872	5,002	2,885	5,694	4,594	3,954	5,970
20,606	20,443	23,319	25,344	25,354	27,632	34,771
89,355	93,239	95,441	100,090	104,046	106,703	121,815
48,335	52,176	55,844	59,184	62,933	66,484	74,973
18,153	17,537	16,968	19,264	18,139	16,829	27,618
48,352	49,031	50,807	52,530	54,033	56,416	68,016
\$8.07	\$8.24	\$8.62	\$8.97	\$9.29	\$9.77	\$10.48
2.75	2.58	3.00	3.58	3.62	3.34	2.72
\$2.80	\$2.80	\$2.80	\$2.80	\$2.80	\$2.80	\$2.35 \$.21½
\$.68	\$.67	\$.88	\$.86	\$.82	\$.97	\$1.26
\$.50	\$.50	\$.50	\$.50	\$.50	\$.50	\$.50



Typical scenes in the Town of Dryden, Ontario,
where the operations of Dryden Paper Company,
Limited are located.



